ISSUES OF THE '90s

# Economy to Pick Up Steam in Mid-1990s

*(Continued from page 138)*
a globalization of markets will develop. Initially goods and investment funds will flow into Eastern Europe to meet consumer demands and to upgrade existing plants. In the intermediate term, Western firms will find increased competition from their neighbors. Longer term, economic well-being will be improved for all as each country specializes its most productive economic sector. This final transition will be the hardest of all as many inefficient firms are driven out of the marketplace.

The globalization of markets will force U.S firms, especially manufacturers, to rethink their strategies of the 1990s. Specifically, many investments in the 1980s were geared to limiting the downward risks in manufacturing primarily by maintaining domestic market share. In the 1990s, firms will need to see and plan for increasingly global markets.

Consumer attitudes will change over the coming 10 years. While many began to shop on the basis of price with some stressing status, buyers in the 1990s will be looking for quality and service at reasonable prices. The average consumer is getting older due to the aging of the baby boom.

**U.S. Economic Outlook 1987 to 1990**
(% Change)

| | 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|---|
| Households | 1.4% | 1.7% | 1.7% | 1.6% |
| Household Income | 5.5 | 5.5 | 6.6 | 6.3 |
| Retail Sales | 6.0 | 7.1 | 5.0 | 5.7 |
| Retail Sales/Household | 4.5 | 5.3 | 3.3 | 4.0 |
| Retail Sales as % Of Household Income | 40.4 | 40.3 | 39.1 | 38.2 |
| Housing Permits | (13.3) | (5.2) | (7.9) | (4.6) |
| Personal Income | 7.0 | 7.3 | 8.4 | 8.0 |

( )—loss

*Source: Mount Economic Forecasting*

Income levels will be rising while family lifestyles stabilize. The older population will be less inclined to relocate, more willing to live in one home for a longer period.

Recent trends in tax and government spending will be reversed. After a decade of tax cuts and deficit, taxes will be on the rise while government spending—federal, state and local—will face slower gains. Spending priorities will shift from defense to rebuilding infrastructure. State and local governments will increasingly turn toward higher user fees.

Environmental concerns are on the rise, not only for air quality but also for waste disposal. Major cities on the East and West Coasts will begin to reduce air pollution through greater use of both alternative fuels and mass transportation.

Health care costs will not grow as rapidly in the 1990s as in the 1980s although they will continue to outpace the overall gain of the economy. The birth rate declined during the depression of the 1930s, slowing the growth in the over 65 age group in the 1990s.

### Short-Term Outlook

Real GNP advances in 1990 and 1991 will remain below the traditional trend rate of growth of 3 percent. Inflation will not be a major concern during most of this time, allowing for lower interest rates.

The overall economy slowed in 1989, a pattern that should persist through most of 1991. In a seven-year expansion that has been characterized by rolling adjustments, 1989 saw consumers, who accounts for two-thirds of the total economy, become increasingly conservative in their buying patterns. The auto sector was badly hurt. At the same time, housing and nonresidential construction markets continued to decline. Defense spending ceased growing in an attempt to trim the deficit. These markets will continue to impact overall economic activity this year as well.

Capital spending, an economic locomotive during 1987 to 1989, has come to a near halt of late, held back by lower corporate profits, slower gains in industrial production and a rise in the dollar. The latest capital spending survey showed an improved attitude towards investments.

Emerging issues for 1990 include growing problems at the S&Ls, both savings and loan institutions and state and local government. Difficulties in both sectors will harm the economy in the near term. Banks will have more restrictive lending practices, and government spending will be curtailed.

The net result of these factors is that GNP growth has slowed in 1990, and with it consumer incomes and buying power. While we will avoid a recession, many consumer markets will be soft.

As we approach 1991, economic activity will begin to improve. Interest rates will be lower and the past overbuilding of multiunit homes will have been somewhat more absorbed. Problems at the lending institutions will be less, allowing for an easing in lending practices.

State and local government spending will remain weak, however, due to prior budgetary problems. Federal government spending will be soft because of further reductions in defense.

Capital spending will begin to recover with the initial upturn concentrated in the equipped area. Office and hotel construction will remain weak.

### Intermediate Outlook

By the mid-1990s, the structure of the U.S. economy will be responding to the changes in demographics, lowered defense spending, improved foreign trade, infrastructure

*(Continued on page 142)*

# Northeast Cools Off; Rockies to Stay Hot

*(Continued from page 138)*
for southeastern New Hampshire. The boom conditions of the 1980s should not be matched in the 1990s. For retailers, the region has an exceptionally high average household income.

### Middle Atlantic

The Middle Atlantic region is suffering from the second slowest rise in employment in the country, up 0.7 percent from a year ago with finance up only 0.2 percent and government 0.6 percent. Construction is now declining at a 0.8 percent rate.

The region is facing two related problems. First, the finance sector is in trouble as Wall Street firms cut back payrolls, local banks suffer from poor regional real estate portfolios and international banks remain troubled by bad Latin America loans.

Second, construction activity is down sharply now. Office and hotel construction both in major cities and outlying suburbs propelled the local economy. Overbuilding plus slow absorption of office space or low hotel utilization rates weakened this market.

In the coming decade this region will fare poorly. Long Island will weaken further with defense cuts. For this area to recover, it will require extensive diversification of existing defense contractors. The New York market faces a multiyear contraction brought on by soft state and local finances and additional cutbacks in financial employment.

Southern New Jersey faces a period of consolidation. The casino market is overbuilt and the recent completion of the Taj Mahal Casino will make a bad situation worse. The residential real estate market is overbuilt in Atlantic County. Monmouth and Ocean Counties should do well in the coming decade as the completion of Route 18 makes the area more attractive to small business. These two counties will be harmed by defense cut backs. Somerset also offers opportunities.

Pennsylvania could be the strongest state in the region over the decade. It has a larger manufacturing base while Philadelphia has developed a higher concentration in medical services and research.

### East North Central

Employment gains in the East North Central states have eased to a 1.4 percent rise from a year ago, below the 2.1 percent national average.

**Regional Growth Overview 1990 to 2000**

| Above Average | Average | Below Average |
|---|---|---|
| Mountain | South Atlantic | Pacific |
| West South Central | West North Central | Middle Atlantic |
| East North Central | East South Central | New England |

*Source: Mount Economic Forecasting*

Manufacturing is down 2.7 percent, reflecting the weakness in overall industrial output, autos in particular.

This region did not fully participate in the recent economic expansion and appears to be headed for a rise above average in 1990. The East North Central region could be the surprise during the 1990s just as the Northeast was in the 1980s. Specifically, manufactured goods are apt to face strong sales in a growing domestic economy along with increased exports.

Ohio and Indiana manufacturing centers should perform well in the 1990s, bolstered by domestic and international demand. Southern Illinois, with a major agricultural bent should also enjoy above average gains.

### West North Central

Employment growth is strong in the region, up 2.8 percent from a year ago vs. a national average of 2.1 percent with construction being a major driving force. The ongoing recovery in the Farm Belt should be maintained during the coming decade pulled by rising exports. This region is emerging from a localized recession and gains in coming years should be strong.

Near-term problems exist in high-technology manufacturing in the Minneapolis area. The industry has slowed as of late, and export restriction could prevent this sector from fully participating in the export boom in the 1990s. On the positive side, U.S. demand should pick up shortly, capital spending plans are being raised with a 7.5 percent gain in dollar volume anticipated.

### South Atlantic

At present, the South Atlantic is enjoying the second strongest gain in employment of nine regions, up 3.2 percent vs. a national average of 2.1 percent. Service growth, up 6 percent, and government, up 3.3 percent, are the strongest in the nation.

In the 1990s, employment gains should be averageor slightly below. Cutbacks in defense will dampen business activity in Maryland, Virginia, Georgia and Florida. These four states, along with North Carolina, also have a concentration of high-tech companies which should do well during the new decade.

Florida will see slower gains in the number of retirees relocating there due to rising home prices and slower growth in the 65-plus age group. Florida's growth in the 1980s was concentrated in the Tampa-Orlando-Daytona corridor. In the 1990s growth will be closer to Jacksonville.

South Carolina will continue to be a faster-growing state in the region. West Virginia will stage a comeback due to an increase in coal exports and domestic consumption.

In the increasingly competitive 1990s, the South Atlantic states will have an advantage in manufacturing because of lower wages, energy costs,

*(Continued on page 142)*

## ISSUES OF THE '90s

# Economy to Strengthen

*(Continued from page 140)*
spending and accelerated capital spending.

Population growth slowed to a 1 percent annual increase in the 1980s and will be an even weaker 0.8 percent in the 1990s. The number of new entrants into the labor force will improve only marginally. Those aged 15 to 24 declined 1.7 percent annually in the 1980s. That figure should rise a very soft 0.2 percent in the 1990s. Slow gains in the number of new entrants will continue to present a tight labor market, increasing wages further, and encouraging additional capital spending to offset the lower gains in the growth of the labor force.

A positive factor for retailers will be the increase in the 45-to-54 age group as the postwar baby boomers enter middle age. Their incomes will be rising; many will have paid off children's college expenses before the end of the decade. Spending patterns should be increasing for this segment, keeping retail sales strong.

Government spending should increase slightly slower in the 1990s than in the 1980s, but its emphasis will shift. Defense spending will be declining sharply during the 1990s as tensions ease between East and West. This change will harm sections of the country having a concentration in defense spending. State and local spending will be on the rise as infrastructure needs increase.

### Exports to Stimulate Growth

Foreign trade will be the premier growth market in the 1990s. Not only will U.S. firms be exporting consumer and capital goods, but expertise as well. There will be a growing demand for design, distribution, retailing, and finance knowledge.

Capital spending will be strong during the intermediate term. Firms will need to increase productivity due to slow growth in the work force, increased foreign competition, and additional gains in exports.

Consumer demand for durables will increase during the 1990s. Auto production will do well during the decade (increasing 3 percent annually, as older consumers turn towards larger cars with increased amenities. The growth rates in the 35-to-44 and 45-to-54 age brackets are the strongest. The average age of the existing fleet has increased, so pent-up demand is high. Foreign manufacturers who have invested in U.S. manufacturing facilities give this country an edge. Look for the United States to increase its exports of autos in the 1990s.

Furniture and appliances will face problems from slower gains in net household formation, but the replacement and upgrading of existing furniture and appliances will still keep this sector growing at about 3.6 percent annually during the 1990s.

Other durable goods are to a large degree luxuries—boats and jewelry. The aging population with higher incomes will increase demand about 3.2 percent through the end of the decade.

Consumer non-durable demand will not grow as rapidly as durables. Food consumption should increase slightly faster than population, 1.2 percent per year, although buying patterns will shift towards higher-quality products. Running against this pattern should be a growing trend toward convenience foods geared towards working adults. Clothing and shoes will benefit from an aging and more affluent buying group. Look for an annual rise of 3.6 percent.

Energy markets will advance in the 1990s. The increase in oil and gas prices will stimulate U.S. economic activity in specific regions. Coal production should increase about 3.7 percent annually with domestic annual consumption rising 3.5 percent, exports 5 percent. Natural gas has suffered from the gas "bubble" since 1981 to 1983, a surplus of supply relative to demand. This surplus has dampened domestic drilling activity. Domestic oil drilling has been harmed by weak prices worldwide, a situation that should reverse itself by late 1991 or early 1992.

**Population Change by Age**

| Age | Percent Change '90-'80 | Percent Change 2000-'90 |
|---|---|---|
| Under 15 | 0.5% | 0.0% |
| 15-24 | −1.7 | 0.2 |
| 25-34 | 1.7 | −1.7 |
| 35-44 | 4.0 | 1.5 |
| 45-54 | 1.2 | 3.8 |
| 55-64 | −0.1 | 1.2 |
| 65-Over | 1.0 | 0.8 |
| Total | 1.0 | 0.8 |

*Source: Mount Economic Forecasting*

# Mountain States to Stay Hot

*(Continued from page 140)*
and tax rates than in most of the nation.

### East South Central

The East South Central region is enjoying above average gains in employment, up 2.7 percent from a year ago. This edge is likely to persist in the 1990s as well.

Tennessee has become increasingly competitive as a manufacturing center. Foreign firms have invested in building new facilities in the state and these products will enjoy rising domestic and international demand in the 1990s. Automobiles produced in Tennessee, in particular, are apt to find rising demand from overseas.

Kentucky will benefit from the improved prospects for coal. The state is enjoying a 3.6 percent rise in employment at present, propelled by an 11.3 percent jump in construction activity.

Alabama should face somewhat slower growth in the 1990s than Tennessee or Kentucky as it has a significant defense sector.

Mississippi will see improved economic prospects from its energy mining sector.

### West South Central

West South Central states are emerging from a localized recession. While current employment gains are only marginally higher than the national average, 2.2 percent vs. 2.1 percent, the gap will widen through the mid-1990s.

Recent economic problems include a sharp contraction in drilling activity and overbuilding of non-residential buildings. Energy prices should rise by at least 35 percent by 1995, sufficient to boost domestic drilling. Office vacancy rates are coming down in Houston and Dallas as firms relocate from other areas to take advantage of lower costs while new construction has come to a standstill. The Dallas market should be somewhat stronger than Houston because of its medical and manufacturing facilities. Both Oklahoma and Louisiana will share in the recovery from energy exploration.

Arkansas, the strongest state in the region during most of the 1980s, will probably face gains below its neighbors in the 1990s because of its smaller energy sector.

### Mountain

The Mountain states are enjoying the highest increase in employment in the nation, up 4.1 percent vs. 2.1 percent nationally. Mining is up 5.7 percent, construction 6.1 percent, trade 4.3 percent and services 5.6 percent. As with the West South Central area, this region is emerging from a localized recession. Unlike the West South Central states, however, the Mountain states enjoy certain advantages that should make it the fastest-growing region in the 1990s.

Nevada has been the fastest-growing state in the country in the postwar years, a distinction that should persist in the 1990s. Employment growth from a year ago is 9.7 percent. Its large service sector, built around gambling, should remain strong. In addition, it enjoys an in-migration from California, especially for retirees. These households often sell their California homes and move to Nevada, where lower home prices prevail.

Colorado will benefit from the recovery in energy and from rising demand for its manufactured products.

Utah has become increasingly a high-tech manufacturing state, a growth market in the 1990s.

### Pacific

A major change for the 1990s will be a reduction in the growth rate for the Pacific region. While outperforming the national average through 1989, the coming decade will see slower gains.

California will see a marked slowdown in its growth. The state has the highest amount of defense spending in the nation, and the 1990s will see a declining trend in this area. Southern California is congested and expensive, factors restrictive to further growth. Concerns about air pollution will force slow growth policies. Riverside will be an exception in Southern California. Future growth in California will come increasingly from the Sacramento area.

Washington will remain the hotbed of activity for the region. Current employment is expanding at a 6 percent rate vs. 2.4 percent in California. The backlog of aircraft orders will keep the Seattle market strong, and an opening up of export markets will accelerate this pattern.

Oregon will not do as well as Washington. The domestic housing industry will suffer from declining demographic forces, pressuring lumber production. High-tech output will not be able to completely offset this pattern.

Alaska will again begin to show faster growth because of higher energy production.


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ISSUES OF THE '90s

# OVER THERE

## Tax Changes Jar Canadian Picture

By Mary Ellen Kelly

At a time when many Canadians are somewhere between disgruntled and enraged about the new free trade agreement with the United States, changes in taxation will further jar the economy.

New tax laws that go into effect Jan. 1, 1991 may cause both native Canadian retailers and U.S. firms in Canada to limit expansion, waiting to see if sales will be hurt by the new tax legislation. American companies contemplating entry into Canada are taking a wait-and-see approach before exploring a market which is both new and undergoing changes.

To consumers, the result of the tax changes will be provincial and federal taxes which combined will total between 15 percent and 19 percent, depending on the individual province. While shelf prices will be lowered as a residual impact of the tax changes, consumer buying habits are expected to be altered by the 7 percent tax hike.

The new broad-based federal tax is being implemented across the country, replacing a tax that had previously only been levied against manufacturers.

For retailers, both Canadian and U.S. firms, the new tax laws are forcing them to spend millions of dollars on changing administrative and POS systems to handle the new two-tier tax format that goes into effect in 1991.

Separately, pro-active pay equity laws are being stepped up in the province of Ontario, and employment equity laws could go into effect in Ontario in the near future.

Despite these political disincentives, some U.S. retailers are crossing the borders in the midst of the tax changes, in search of a new frontier of consumer demand to harvest.

One of the most recent entrants is HeadQuarters Office Supplies Warehouse, the first office supplies superstore chain to open on Canadian soil. The unit opened on March 29 in Richmond, British Colum-

*(Continued on page 160)*

**'American companies eyeing entry into Canada are taking a wait-and-see approach'**

## Europe Receptive; Japan Stays Aloof

American companies contemplating conducting business overseas in the '90s will find that going east—to Europe—will be easier than going west—to Japan.

Despite recent indications from the Japanese government that it would be more open to foreign retailers, the country's labyrinth of archaic product distribution and anti-large retailer laws makes it next to impossible for a U.S. chain to independently open stores there.

On the other hand, American companies, especially manufacturers, expect that the new European trade agreement which goes into effect in 1992 will facilitate U.S. involvement in the European market and help U.S. retailers and manufacturers participate in a new global economy.

For most U.S. retailers, however, the thought of trying to expand overseas is a joke. Struggling under the heavy debt of LBOs, they do not see themselves as being able to take advantage of the dynamic growth potential in overseas expansion.

Currently, only a small group of U.S. retailers (outside of the food service industry) have an international presence. K mart, Sears, and Woolworth are the three major U.S. general mass merchants operating in Canada (see story on this page), along with smaller operations of Price Co. (Club Price Canada), HQ Office Supplies (HeadQuarters Office Suppliers Warehouse) and Costco. K mart also owns part of Coles Myer, a major Australian retailer. It also operates stores in Puerto Rico, with plans to enter the U.S. Virgin Islands—although that can hardly be considered an international drive.

Among specialty discounters, Toys "R" Us is miles ahead of everyone else in establishing an international presence. TRU operates a growing chain of toy stores in Europe, and recently signed a deal with a Japanese subsidiary of the McDonald's restaurant chain to open up to 100 toy stores of over 50,000 square feet each in Japan.

*(Continued on page 160)*

ISSUES OF THE '90s

# Canadian Market Is Changing

(Continued from page 149)
bia. Eight to 12 more units are slated to open by the end of this year according to the chain, which is the Canadian arm of Southern California-based HQ Office Supplies.

Other U.S.-based retailers are expanding their Canadian operations. Woolco/Woolworth will open about 10 new stores—five of each; K mart plans to open another five K mart discount stores and three more Bargain Harold's; Club Price, the Canadian counterpart of The Price Co., is expected to open another two warehouses; and, Toys "R" Us plans to add more units, targeting the Vancouver market during 1990.

U.S. retailers are not the only ones exploring the country's sales potential. The Swedish home furnishings specialty chain IKEA now operates seven Canadian stores and plans to open another store next year.

As U.S. and other foreign retailers permeate the Canadian market, retail opportunities shrink for two reasons. Like its southern neighbor, Canada is becoming overstored in its population centers. The country is facing mall vacancies for the first time in 20 years. At the same time, the national birth rate is down 1.7 percent, said Alasdair McKichan of the Retail Council of Canada.

Immigration levels of 125,000 are being offset somewhat by an emigration rate of 50,000. McKichan noted that "in order for there to be population growth, 400,000 should be coming into the country."

The country's new 7 percent Goods and Services Tax (GST), which replaces the 13.5 percent manufacturers' tax, is causing difficulties for all Canadian businesses, but brings special problems for retailers.

The merchandise category that will truly suffer from the new tax policy is apparel, which will now be taxed at 7 percent, as opposed to being excluded from federal taxation. Apparel has been in a slump for the past couple years, and the tax threatens to further erode volume.

### Registers Have Big Job

The new tax forces retailers to equip cash registers with POS equipment that can handle two separate taxes—the one levied by each province and the new GST. McKichan estimated that only one-third of all Canadian cash registers are equipped to handle a two-tier tax system. Retailers are simultaneously scrambling to install POS and educate store employees on its usage.

In addition, the tax change means that retailers must devise a way of lowering all the prices in their stores overnight, or as quickly as possible. Just how much prices will actually be lowered is still being determined. Retailers said they are waiting to hear from the government concerning how they are supposed to physically make these required adjustments.

Keith Costine, president of K mart Canada Ltd., said his company is hoping implementation of shelf-edge pricing this October on most goods will simplify the price change for his company. He estimated that he has already spent $5 million in administrative and technology expenditures (not including $40 million spent last year for chainwide POS).

John Urie, executive vice president of Zellers, one of the country's largest retailers, explained that the 13.5 percent federal sales tax—which had been imposed just on manufacturers of non-apparel products—will fall to the new 7 percent level. The nearly 6 percent drop is expected to be passed onto retailers and in turn to consumers, Urie said.

Urie explained: "The important difference as far as the customer is concerned is that it is no longer a hidden tax. The federal sales tax had previously been buried in the cost to retailers," Urie explained. He and other retailers expressed doubt that the federal government would be able to make clear to consumers the fact that price reductions will roughly off set the tax at the cash register.

The short-term impact of the GST is expected to be a fourth-quarter stampede as consumers rush to stores to purchase goods before the tax goes into effect. Retailers said the anticipated rush will be due to the lack of information the national government has provided on the tax.

Keith Elliot, director of public affairs with Woolco Department Stores, said the fourth quarter of this year should be good, but the tax will ultimately "retard sales on most goods sold." Woolco operates stores in each of the country's provinces. While no one province is outpacing any other, Elliot said Vancouver continues to emerge as a strong market, but Toronto continues to "roll like thunder."

Maurice Tousson, president of Consumers Distributing, Canada, estimated that the company will spend between $500,000 and $1 million in administrative costs related to the GST, ". . . and we're more fortunate than most," he added. "Our POS systems are able to handle a two-tier tax." Tousson expects the administrative details related to the new tax to be "quite cumbersome" and lead to depressed retail sales.

Pierre Mignault, president and chief executive officer at Club Price, feels that the GST will not be quite the problem that other retailers suggest. "The GST is highly criticized, but it will not be that bad, actually. It will improve customer prices," Mignault said. He acknowledged that the GST will require software changes at Price, and may require some companies to invest in POS.

Regarding the impact on customer shopping habits, Mignault said the company will educate its customers through its newspaper for members and within the club locations. "Early in fall we will start teaching them. We deal a lot with small business who don't have the time or money

(Continued on page 162)

**Canadian Retail: Several Powerhouses Dominate**

| Major Canadian Mass Marketers (Listed alphabetically) | No. of Stores (as of 5/90) | No. of Stores (as of 1/91) |
|---|---|---|
| Canadian Tire | 414 | NA |
| Club Price Canada Inc. | 6 | 8 |
| Consumers Distributing, Canada | 202* | 206 |
| Costco | 4 | 6 |
| HeadQuarters Office Supplies Warehouse | 1 | 11 |
| K mart Canada Ltd. | | |
| K mart | 121 | 126 |
| Bargain Herald | 155 | 158 |
| Kresge | 35 | 35 |
| Stedman's | 225 | 225 |
| Gendis Inc. | | |
| Metropolitan Stores | 87 | 88 |
| Saan | 229 | 249 |
| Sears | | |
| Sears Retail Stores | 92 | 98 |
| Sears Catalog Outlets | 1,600 | NA |
| Towers | 51 | 51 |
| Woolco | | |
| Woolco | 146 | 151 |
| Woolworth | 164 | 169 |
| Zellers | 211 | 218 |

*Includes 30 franchised stores

NA — not available

Source: DSN research

# Expansion Outlook Brighter in Europe Than Japan

(Continued from page 149)
As could be expected, local Japanese toy retailers are trying to block TRU's entry with a law that requires local merchants to approve the opening of any stores larger than 500 square meters, or 5,400 square feet. How TRU fares in its effort to launch a Japanese toy chain will determine how serious Japan is about opening its consumer market to outsiders.

If TRU has any success in invading Japanese shores, it will be because it decided to take on a Japanese partner. Several non-discount U.S. retailers have successfully teamed up with Japanese firms. Talbots, the women's apparel retailer, joined with The Jusco Group, Japan's fourth largest retailer, to open its first overseas unit in a Toyko suburb earlier this year. Johnson & Murphy opened its first foreign shoe store in Japan with a Japanese company that markets J&M footwear in Japan.

Sears also has entered into a joint venture with a Japanese firm to open small (under 500 square meter) tire and auto accessories stores in Tokyo.

Partnerships will be just as important for companies hoping to cultivate the new open economic markets of Europe. The first wave of partnerships is being precipitated by the 1992 agreement to eliminate barriers to trade. So far, most of the activity has come from manufacturers, not retailers.

Manufacturers that already have a history in Europe warn that the biggest pitfall a U.S. company can fall into is believing that products successful in America can be transplanted effectively into Europe. Partnerships with native companies are considered to be the easiest, most cost-efficient way of identifying cultural differences that would influence product preferences.

While demographics of income and age groups might be similar between the United States and some European countries, the kinds of products that are considered useful or esthetically pleasing vary greatly.

Al Rabin, president and chief operating officer of bakeware and gadget vendor Ekco Housewares, said new product development for the European consumer is crucial to his company's seven-year success abroad. While there are certain common characteristics in attitudes toward food preparation, Rabin found it to be "much more a creative outlet for Europeans . . . much more central to their lives."

### Partner Is Essential

Michael Crowley, general manager of international sales and marketing for stainless steel cookware manufacturer Farberware, said, "Certainly one needs a partner in Europe. The product has to be designed to fit the needs of the marketplace and the partner would know the customer . . . Financially and culturally it would be impossible to set it up by yourself." The company just made its first shipment to Europe, to its new partner, Aubecq-Auxi, a French company with product scope similar to Farberware's.

Marty Gibson, group president of Corning, overseeing international operations, said currently 25 percent of Corning's volume is in Europe. Further growth potential is being explored through a minority interest in Calp, an Italian machine-made lead-crystal manufacturer.

Personal care appliance manufacturer Conair Corp. is also working on a joint venture in Europe, according to Inge Bailey, assistant to the director of international sales.

Partnerships of this kind are key to the penetration of U.S. firms in the European economy in order to gain an understanding of the wide-ranging differences among consumer tastes from country to country. Joining forces with a native European firm also permits U.S. firms to take advantage of already established distribution avenues.

Rabin at Ekco believes the decision to enter the European arena is something that each company must examine, but those that are not yet there must act quickly. "The fact is, 1992 is not a panacea. It is not a green light for all companies to enter or prioritize the market . . . but I wouldn't continue to debate whether or not a company should enter. *Now* would make sense. *Later* might be too late."

Despite their apparent lack of interest so far, U.S. retailers have a major opportunity to enter global retailing. The specialty retailing and targeted merchandising that has propelled the growth of many U.S. chains in America seems to be perfectly suited for European consumers.

ISSUES OF THE '90s

# Tax Changes Expected to Affect Canadian Market

*(Continued from page 160)*
to go to lectures on the subject. We will explain the GST to them," he said.

Cross-border shopping, a problem that has intensified during the past year or two, is expected to intensify as a result of the GST. While large numbers of Canadians along the U.S. border come into the U.S. to shop, most Canadian retailers said the situation is not currently bad enough to seriously affect new store site selection.

However, Tousson of Consumer Distributing, the Canadian catalog showroom chain, sees cross-border shopping as a problem for Canadian retailers, and one that will only worsen with time.

"Take a survey on a Sunday at border stores in the United States and you'll find seven or eight out of every 10 license plates are Canadian," he said. Changes in the economic climate are bound to take prices in an upward spiral, making U.S. retailers all the more alluring.

"Rents, wages, and duty rates are all higher, [than in the U.S.] . . .compare our prime borrowing rates. Not long ago it was 1 percent to 1.5 percent higher in Canada; now it is 3.5 percent higher," Tousson explained.

Urie from Zellers said he believes rules regarding the maximum amount of undeclared merchandise Canadians can bring back from the United States are not being rigidly upheld. "I believe people are being allowed to bring more undeclared merchandise over the border."

### Future Tax, Policy Issues

Canadian consumers are already having a hard time swallowing a 7 percent tax on everything from roller skates to home heating oil, but tax issues are destined to become more muddled.

Provincial taxes range from 8 percent to 12 percent. As it stands, the Canadian government is letting each province decide whether to apply the national GST tax before or after the provincial tax is levied. In other words: If a consumer buys a $10 tea kettle in a province that levies a 10 percent tax *before* the 7 percent GST, the customer will be charged $11.77; if the GST is charged *before* the provincial tax, the final price will be $11.07.

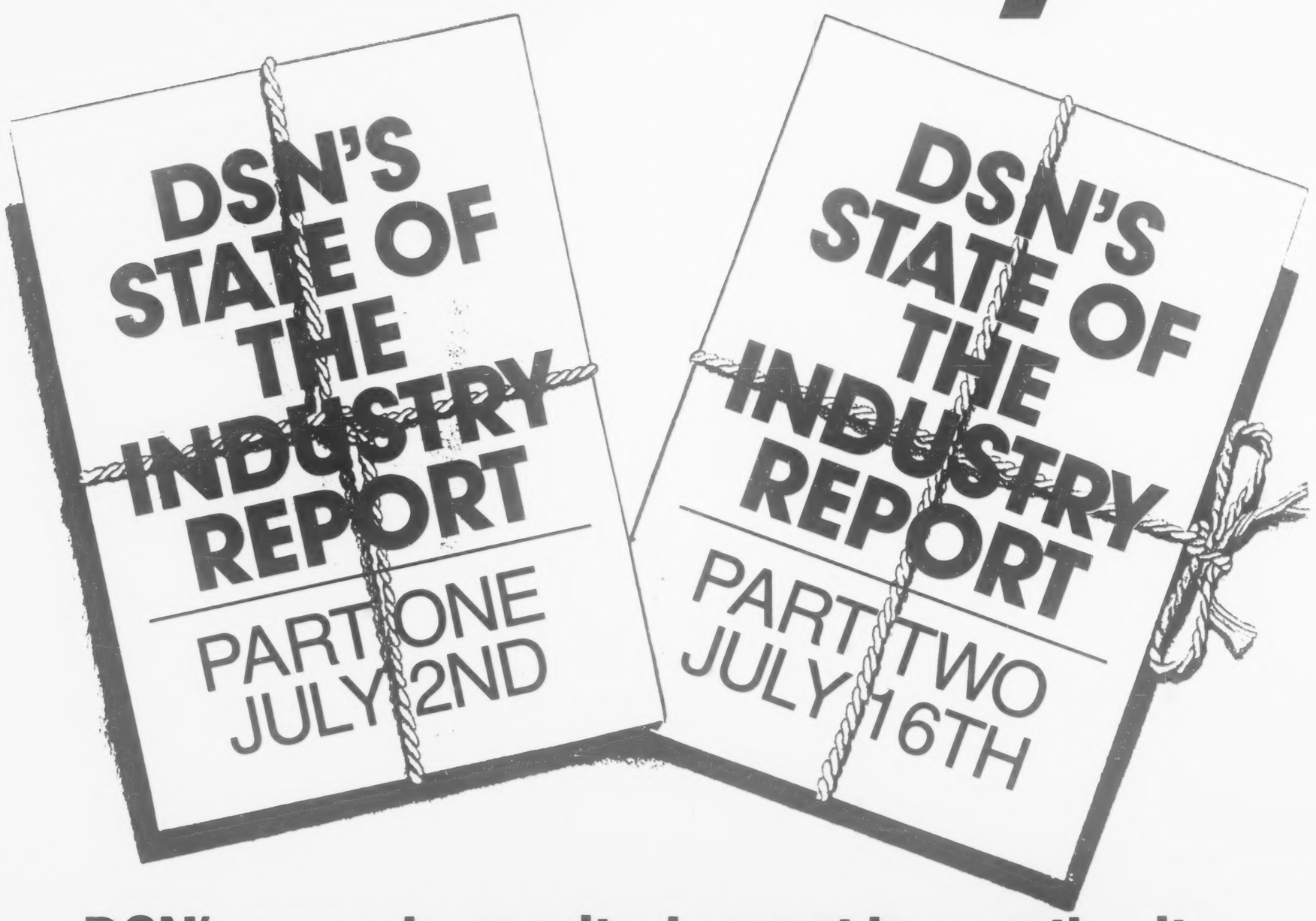
### Timing Is Crucial

McKichan expects the provinces will try to optimize their tax revenues by levying taxes after the GST, the same way it was done when the tax applied only to manufacturers. Eventually, if the provinces are all in agreement, the provincial and GST taxes could be combined to simplify transactions. The GST and provincial revenues could be separated again when company tax payments are due.

As if these tax matters were not enough to deal with in 1991, all firms employing 100 people or more—retailers included—will have to cooperate with a pro-active pay equity policy in the province of Ontario. As it stands, the policy applies to companies with over 500 employees.

The policy involves creating wage comparisons between male and female employees who perform comparable jobs. If there is an insufficient population to establish an average wage by gender for a particular job within a company, management must conduct research within the market to create such an average.


# Under Wraps Until July...

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Discount Store News.
THE NEWSPAPER OF DISCOUNT RETAILING

**THE POWER OF LEADERSHIP**

# Hills Updates Displays, Plans Prototype for '91

*(Continued from page 1)*
as consumer electronics, health and beauty aids, "small goods," and lawn and garden.

Goldberger also sees opportunities for using bulk hard line displays in the new store.

For fiscal 1989, ended Feb. 3, 1990, Hills reported sales of $2.075 billion, a 24 percent increase over the previous year. Operating income for the year totaled $108.1 million, up 10 percent from a year earlier, but net income fell 75 percent to $2.9 million, from $11.5 million in fiscal 1988.

The decline in net income is largely the result of tremendous debt from a leveraged buyout in 1985. Hills went public again in 1987.

"Hills' financial condition has not improved materially since its LBO in 1985," said Edward F. Comeau, a retail analyst with Oppenheimer & Co. in New York. "Hills faces a more onerous debt repayment schedule with about $25 million due in 1990. . . Although Hills' financial outlook appears manageable, it leaves very little room for error."

In order to improve net income, Goldberger told *DSN* that the chain needs a 5 percent comparable store sales gain, which is exactly what Hills achieved in the fourth quarter of last year.

The final quarter of '89 ended with a 25.5 percent sales increase, to $719.9 million, and an operating profit of $57.4 million, up 29.4 percent. Net income for the period rose 30.1 percent, to $27.36 million.

Goldberger said he was disappointed with Hills' year-end results, but the fourth quarter showed the company's mettle.

Among other changes the company is making this year are adjustments in its advertising program to take advantage of strong consumer response to print advertising.

Goldberger said broadcast ads are being cut to less than 50 percent of the ad budget from more than half, and adjustments to Hills' ROP program are being reviewed. Circulars are being beefed up. Last Christmas Hills added a second circular, and two Back-To-School circulars are planned for the coming year.

Also slated for a rollout in 1990 is the company's UPC-scanning program.

### Distribution System

In another change from the past, Hills will shift to a two-step distribution system. By mid-1991 the discounter will open is first distribution center, an 825,000-square-foot facility in Chambersburg, Pa., to service the eastern half of the chain.

In 1992 Hills will open another DC to service the western part of its store chain.

Goldberger said Hills will save "in the eight figures" by using central distribution, adding "the leverage is forcing us to act smarter."

The first tangible indication of Hills "acting smarter" was last fall when the chain reversed its 31-year tradition of cash-and-carry only sales and began accepting credit cards.

The change proved profitable for the chain. During Christmas, credit card transactions pumped up the chain's average sale and represented 15 percent of all sales during that period, said Goldberger.

Layway sales, which usually represent about 15 percent of sales, were not harmed by the credit cards, and increased during this period.

Although Hills is not fundamentally changing its operating philosophy—it will remain a low-cost operator—many of the upcoming changes show that the chain is eager to make necessary adjustments to fit the new markets it is entering and the changing times and tastes of its clientele. Particularly noteworthy among the changes are the credit cards, wide drive aisles, fashion-oriented merchandising, and use of two-step distribution.

After adding 35 stores to its base when it reopened a group of former Gold Circle units last year, Hill will keep store openings to a minimum this year. Only six new stores are planned. Two opened on April 23, in Flint and Saginaw, Mich. The other four units will be in Kalamazoo, Mich.; Syracuse and Massena, N.Y.; and Hamilton, Ohio.

In 1989, "We underestimated what it cost to open Gold Circle, business was weak in our trading area, and we didn't react well enough," Goldberger explained.

Hills acquired 33 former Gold Circle stores in fall 1988 and reopened them as Hills stores in spring 1989.

Goldberger characterized the acquisition as a "once-in-a-lifetime deal" that gave Hills the opportunity to grow.

"It was a strategic gamble," added Goldberger, noting that the sites Hills acquired were in areas the company was already contemplating.

Financial analysts who watch Hills added that overall competition and Wal-Mart's penetration into Hills' trading areas were additional factors in Hills' disappointing 1989 performance. In general, they praised Hills' plans for a new prototype and its remerchandising initiatives, but one analyst described those changes as "inadequate" since they are so late in coming.

Whatever the concerns are among retail analysts, national and international banking organizations are supporting Hills.

Hills recently reported that terms of its $400 million commitment from The Mitsui Taiyo Kobe Bank announced on Jan. 29, 1990, have been revised. Mitsui Taiyo Kobe is now providing up to $100 million and will act as co-agent with Bankers Trust Co. under a $325 million working capital facility pursuant to an amendment and restatement of the company's existing credit agreement. The agreement has been extended through December 1993.

# K mart, Waldenbooks Face Pickets

*(Continued from page 5)*
day advertising campaign aimed at spotlighting Americans' access to "constitutionally-protected" materials in the form of books, magazines, films, and videos.

The cornerstone of the campaign was a $400,000 full-page ad in the national editions of the country's top newspapers, such as *The New York Times, The Wall Street Journal, USA Today* and *The Christian Science Monitor*, plus papers in the nation's top 28 markets.

The ad, which reached over 16 million readers, took the form of an open letter. It was signed by Hoffman and Ed Morrow, president of the American Booksellers Association. The ad encouraged readers to fill out a ballot stating one's opposition to censorship and send it to the American Booksellers Association for tallying. The results will be released early this month.

"We believe attempts to censor the ideas to which we have access—whether in books, magazines, plays, works of art, television, movies, or song—are not simply isolated instances of harassment by diverse special interest groups. Rather, they are part of a growing pattern of increasing intolerance, which is changing the fabric of America," said the ad.

"We're involved because we think it's time to 'help common sense prevail,' " said Hoffman. "We view these efforts on the part of special interest groups as attacks on our fundamental right to read and to sell Constitutionally-protected material. It's time to 'turn up the volume' on these issues and let Americans speak for themselves."

Ballots also were available at all Waldenbooks stores during the week of April 23 to 27 so patrons could cast their votes, said Pat Newlin of The Newlin Company, Waldenbooks' public relations firm.

The recent incident between Waldenbooks and American Family Association is not the first time the two groups tangled.

Last October Waldenbooks, in concert with The Media Coalition and book and magazine publishers and distributors (such as The American Booksellers Association, the Council for Periodical Distributors Association, and International Periodical Distributors Association, Playboy Enterprises and Duvall Bibb Services, a Florida distributor of books and periodicals), filed suit against the Florida chapter of the AFA under the Federal Racketeer Influenced and Corrupt Organizations Act (RICO) and the Florida State RICO Acts. RICO protects a firm's right to conduct business without threats or harrassment.

### First Amendment Rights

While Wildmon of the AFA did not address the pending lawsuit, he invoked his right under the First Amendment to the U.S. Constitution to picket K mart, Waldenbooks, and others.

Wildmon said that if a retailer sells pornography he has the right to picket and to tell others not to shop those stores. He said he does not question K mart's right to sell materials he and his group deem pornographic. He also declined to call the tangle censorship. It's a case of "economics," Wildmon said.

# 'Shop Concept' Big in Jamesway Revamp

*(Continued from page 1)*
ton stores have remained constant in their merchandise mix. What has changed is the amount of space devoted to specific branded merchandise. According to Lazarus, Jamesway will continue to emphasize important national brands within the stores, both through its own signage as well as special shops-within-a-store fixtures.

A McGregor shop, for instance, is in place in both new units, bringing the total to six Jamesway stores which have installed special McGregor merchandise and fixturing.

A Gitano shop is already in place at Kingston, with another expected to open in Matawan within the month.

"I think you will be seeing more and more of this shop concept," Lazarus said. "We have been doing it in hard lines for some time—with the frame shop and the closet shop, for instance. We felt ready to expand into the apparel area."

Although no specifics have been determined, Lazarus did admit the chain is looking at additional vendors' lines that might be successful as shops.

Among the merchandise areas that Jamesway has already created shops for, in addition to frames and closet supplies, are bedding, housewares, including a Rubbermaid section, crafts, and stationery and gifts.

Due to the new emphasis, the new stores have expanded their use of overhead signs. Bright orange hanging signs call attention to both the merchandise category and the important brands found there. One area, the home entertainment center, is designed in bullpen fashion.

***The newest Jamesway stores represent a trend toward larger retail spaces for the discounter***

New fixturing has also updated the look of the apparel area. Four-sided racks and grids have replaced long straight racks to better showcase the merchandise. The product areas have also been better defined. Shoes, for instance, are no longer a department by itself, but is now part of either the women's, men's, or children's areas of the store. Sales at the Matawan store have exceeded projections since it opened in late March.

Computerized scanning has been incorporated into the new Jamesway stores as well. Scanning will be rolled out through the entire chain this summer. Lazarus expects all 131 Jamesway units to be converted by August.

New prototypes are not the only change at the discounter. The company is venturing into the home furnishings and housewares areas by opening two "Our House" stores later this year. The new stores will sell both discounted and department store housewares and home furnishings exclusively. The first prototype is expected to be complete in July, according to Lazarus.

Jamesway reported a 6 percent increase in sales for a five-week period ended April 1, compared to the same period in 1989. Store-for-store sales rose 2 percent.

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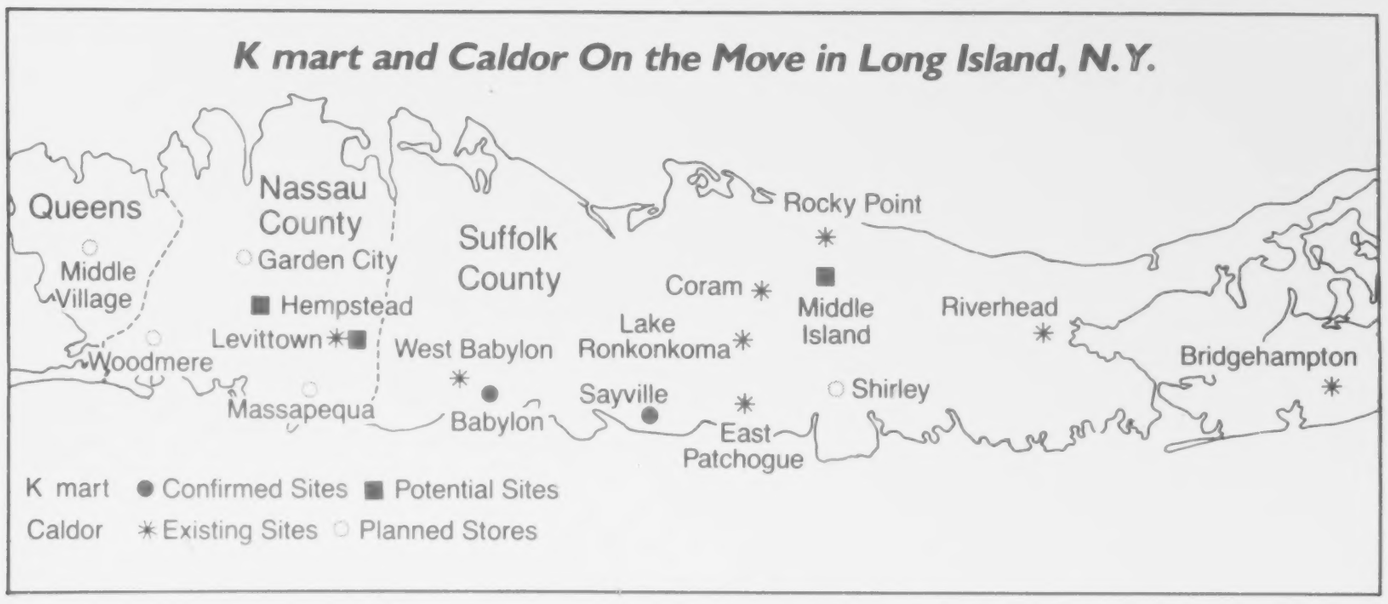
# Discount Store News®

THE NEWSPAPER OF DISCOUNT RETAILING

SECOND CLASS

VOL. 29, NO. 10 | Published Biweekly, Every Other Monday, Monthly in December, by Lebhar-Friedman Inc. | May 21, 1990


# K mart Leaps Onto Long Island; Sets Up Showdown With Caldor




**By Laura Liebeck**

TROY, Mich. — K mart will enter the Long Island market this fall with two stores and has plans to open about 12 discount stores in the New York suburbs within the next two to three years.

*DSN* has confirmed that K mart will open 105,000-square-foot stores this fall in Babylon and Sayville, N.Y.

Within the coming weeks, K mart will announce two more Long Island sites, according to Wilbur Breslin, president of Breslin Realty, Garden City, N.Y. Breslin is handling K mart's real estate acquisitions on Long Island.

Breslin acquired five former TSS discount store sites on Long Island last winter when that chain sold off its property leases. Two of the sites include the Babylon and Sayville locations. The other three sites, in Hempstead, Levittown and Middle Island, are also expected be bought by K mart.

TSS sold off its store leases in January as part of its dissolution.

Moving to Long Island poses little competitive risk for K mart. Caldor is the only remaining discounter with a substantial presence. Caldor, which acquired the lease for TSS' former Middle Village

*(Continued on page 30)*

# Pistner Sketches Ames Turnaround

**By Pete Hisey**

ROCKY HILL, Conn. — He may not hit .300 or drive in 100 runs, but Ames Department Stores expects Stephen Pistner to be a great free agent acquisition—and be worth more than the reported $2 million a year (and $8 million over three years, including bonus) it will pay him.

***Stephen Pistner***

Pistner, 58, who boarded Ames as chairman April 30, is very confident that he can rescue the company from its bankruptcy and resurrect the chain—the nation's fourth-largest discounter—but won't make any prediction about how long it would take.

"I'm a specialist in this kind of thing," he told *DSN*. "I always find the same thing: the basic rules are broken, from poor merchandise purchases, lack of balance in in-

*(Continued on page 29)*

# Alexander's Banks on Bronx's Future

## *New Unit Woos Ethnic Shoppers*

**By Don Longo**

NEW YORK — Alexander's, the discount department store chain based here, opened its first new store in a decade in the ethnic neighborhood of the East Bronx.

The store is a completely renovated former TSS site, which previously housed a Korvettes discount department store. Alexander's acquired the location last year for a reported $5 million when TSS began liquidating its merchandise and selling its real estate.

Robin Farkas, chairman of the 12-store chain, called the new two-floor, 147,000-square-foot unit the "completion of Alexander's Bronx box" (the chain operates two other Bronx stores and one in Yonkers, just north of the Bronx). Farkas led a ribbon-cutting ceremony aimed at reaffirming Alexander's commitment to the borough through its business investment in the community and charitable donations to local organizations.

"A lot of people have been saying some pretty terrible things about the Bronx," said Borough President Fernando Ferrer. He was likely referring to, among other things, the filming of the screen version of Tom Wolfe's novel, "The Bonfire of the Vanities," which drew protests over its unflattering depiction of the Bronx.

"I want to commend Alexander's because while other people are taking their stores out of the Bronx, Alexander's is putting its store in here," said Ferrer, who was among several dignitaries to attend the grand opening April 30.

Alexander's was founded in 1928 by George Farkas, who opened the chain's first store

*(Continued on page 30)*

***At the opening**: (from left) Roger Barrer, president; Bruce Farkas, vice chairman; and Robin Farkas, chairman and ceo.* (DSN photo)

# Target Wins Its 2nd DISC Award

NEW YORK — Target Stores was named the recipient of the 11th annual DISC (Discounter in Service to the Community) Award, which is sponsored by *Discount Store News*. It is the second time the Minneapolis-based discounter has received this prestigious award which recognizes the community service efforts of the nation's discount retailers.

Target was selected based on its extensive programs which combined contributed over $5.2 million in 1989 to more than 800 nonprofit organizations addressing a wide variety of cultural and social needs.

Target's diverse efforts include: support of United Way, local public television, Goodwill Industries, Good Neighbor, Santas Anonymous, Toys for Tots, Kids for Saving Earth and much more. The company also demonstrated support for communities in crisis by supplying financial aid and merchandise for disaster victims of Hurricane Hugo, the Bay Area earthquake, and the DC-10 plane crash in Sioux City, Iowa.

***Target's Kids for Saving Earth** clubs offers schoolchildren opportunities for environmental activism.*

Target was selected by a panel of judges using a point scale rating system with the following criteria: breadth and scope of programs; corporate participation; individual involvement; store level promotions; special events; and creativity of special promotions.

The judges included John Emery, president of the Association

*(Continued on page 4)*

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## MARKETWATCH

### Wal-Mart Presents Technology Award

SAN DIEGO — Bobby Martin, Wal-Mart senior vp, information services (l), presents the retailer's first Technology Pioneer Award to Jack Shaw, chairman and ceo, Hughes Network Systems in recognition of "Hughes' vision and innovation in implementing the world's first large private satellite network at Wal-Mart." The discounter uses the network, linking up all the Wal-Mart and Sam's Wholesale Club stores, for data, voice and video communications, including airing six to eight broadcasts a week on merchandising, training and general corporate business. Stores get a show schedule two weeks prior to broadcast.

### The Wholesale Club to Fly in Windy City

INDIANAPOLIS — The Wholesale Club plans to invade the greater Chicago market with a cluster of three membership warehouses, with units in the South Loop Marketplace in downtown Chicago and Hawthorne Works in Cicero, Ill., opening this fall and a freestanding unit in Evanston, Ill., in spring '91. The Wholesale Club expects to have 29 units by the end of the year, with Chicago as its largest market. The Windy City is already home to BJ's (3), the Warehouse Club (3) and Sam's (2).

### Costco Debuts First New N.E. Warehouse

KIRKLAND, Wash. — Costco Wholesale Corp. will debut the first of a half-dozen membership clubs planned for the Northeast in October when it opens a store in West Springfield, Mass. The unit will follow Costco's latest prototype and include fresh produce and meat and a scratch bakery. The six units are scheduled to open in Massachusetts, where Costco opened a regional office in last September, and two other states, New York and Connecticut.

### Tuesday Morning Opens Six New Stores

DALLAS — Tuesday Morning opened six more closeout stores for its April to May season, pushing store count to 123, and plans to open 11 more in 1990. Of the six, four are in new markets: Norfolk and Virginia Beach, Va., and Cincinnati (two stores). Tuesday Morning operates only during four peak selling seasons: Spring, August to September, October through Christmas, and February.

### Catalogers Hold Annual Buying Shows

HAUPPAUGE, N.Y. — It's the time of year for the catalog showroom coordinators to hold their annual buying shows. American Merchandisers and Paul Schultz held their's earlier this month in Miami. Merchandisers' Association is holding its show at the Doral Country Club in Miami from May 20 to 23. Associated Charter Catalogs will be at Doral on The Beach, Miami Beach, from May 24 to 27 and Jewelcor Merchandising will hold its show from June 3 to 6 at Trump Taj Mahal, Atlantic City, N.J.

### CD Parent Buys 20% of CE Maker

MARKHAM, Ontario — Consumer Distributing's parent, Semi-Tech Microelectronics (Far East), has strengthened its position as a combined manufacturer-retailer by purchasing 20 percent of Tomei Industrial (Holdings) for $14.8 million (Can.). Tomei, a Far East manufacturer of consumer electronics for a number of national brands, will jointly develop audio, video and small application products with STM(FE)'s Singer division. These items will be marketed through Singer's store chain in Europe and through the CD showrooms in the United States.

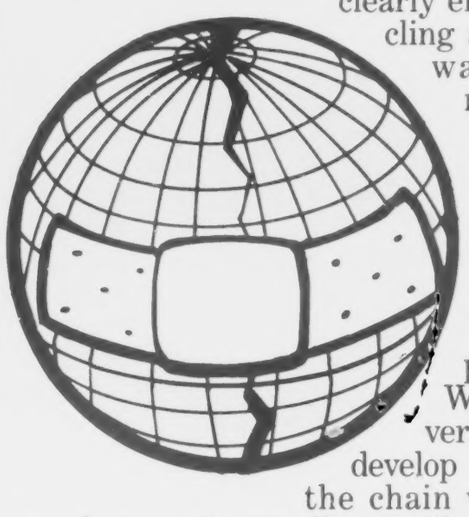
# The Greening of K mart

## *Environmental Labeling Program Nears Rollout*

**By Michael Vickerman**

TROY, Mich. — Adding its voice to the growing chorus of retailer concern over the nation's environmental woes, K mart outlined a three-step action plan to provide a "healthier environment for America" in a special full-page Earth Day advertisement in *USA Today.*

Like the ads that Wal-Mart ran last fall in *The Wall Street Journal* and *USA Today*, K mart's ad announced the pending deployment of in-store signage designating "earth-friendly" merchandise. But while the Wal-Mart ads, which called for "quality products that are guaranteed not to last," could be seen as promoting degradable goods, K mart's ad clearly emphasized recycling as the principal waste management approach that the chain will pursue.



Toward that end, K mart has hired a team of environmental experts from Wayne State University in Detroit to develop a questionnaire the chain will eventually send out to its suppliers, said company spokesman Ed Powers. The questionnaire will be crafted to provide the retailer with a scientifically sound basis for evaluating the environmental effects of its merchandise.

The vendors will be asked a wide variety of questions dealing with the physical attributes of their products, focusing on such considerations as chemical composition, use of renewable resources, type of packaging, the proportion of packaging to product, as well as the ratio of virgin vs. recycled materials, said Carol Miller, an environmental engineer involved in the project.

"Once the information has been compiled, we can begin comparing one product against other similar products, and then come up with some kind of scoring mechanism," Miller said.

Those items that satisfy K mart's definition of environmental friendliness will be highlighted with special signage, which is expected to be installed chainwide by early June, Powers said. The chain intends to spotlight these environmentally superior products in its store circulars as well.

Miller said that K mart wanted the survey to go beyond simply determining which products are degradable or recyclable. "To say a product is degradable doesn't tell us very much, especially if, like styrofoam, the process takes many lifetimes to complete. Also, decomposition sometimes results in compounds that can be quite harmful if released into the air or water," Miller said.

"Words like 'biodegradable' and 'recyclable' haven't been with us long enough to have precise meanings. All too often products have been judged good or bad based on superficial considerations, not on scientific ones. That's why K mart approached Wayne State with this project," Miller said.

In addition to the environmental labeling program, K mart will showcase merchandise made from recycled material using the traditional three-arrow logo.

Also indicative of the chain's commitment to recycling is its practice of using recycled paper in its headquarters, stores and DCs. In addition, the chain separates its paper and cardboard waste at most of its locations, and it is picked up and shipped to a recycler.

# Shaky Parent Writes Off Jaffe's

## *Chain Is Third Office Superstore To Go Under*

MIAMI — The termites got to Jaffe's.

The seven-unit chain became the third office supply fatality in the burgeoning business, a victim of financial troubles both inside the small chain and at Jaffe's parent company, Abitibi-Price, the Toronto-based wood products manufacturer.

Currently, Jaffe's is liquidating its inventory and expects to cease operation by early- to mid-summer, said Abitibi-Price spokeswoman Sharon Paul, vice president, corporate and public affairs.

Jaffe's started liquidating its inventory in April. Earlier this year, the home office supplies chain closed three units.

Recently, Jaffe's president Steve Sink left the company.

"For the last two years Jaffe's management and staff have worked long and hard in a tough competitive market to refine their store concepts. While its supermarket approach to retailing met with some success, the company's overall results and outlook no longer justified continuing the business," said Bruce McGroarty, president of the office products division of the diversified group of Abitibi-Price.

Jaffe's demise was signaled earlier this year when Abitibi-Price, which is experiencing financial troubles, released a letter from its chairman and chief executive, Bernard Koken, warning of cuts and layoffs.

In a Feb. 1 letter to company employees—the first of several such communications—Koken said Abitibi-Price "is conducting a broad review of all its operations in an effort to cut costs and restructure management." The letter also said that Abitibi-Price would concentrate "only on essential tasks."

Paul commented that closing Jaffe's was not directly related to Abitibi-Price's troubles and that the parent company decided to close busi-

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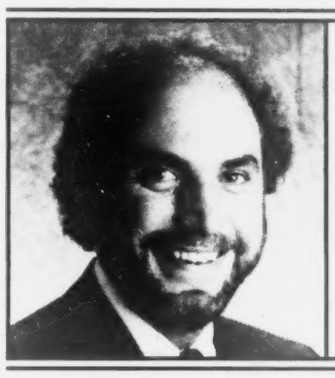
## EDITORIAL

# *Open Letter to Ames' New Chief Exec*

Dear Steve:

You have been called the "two million dollar man" and the "eight million dollar man." You have been called a "turnaround king," "Hercules," and probably a lot of other names, some flattering and some not. Yet, you have only had the job as ceo and co-chairman of Ames for about three weeks. But this is nothing new for you. You have been on the hot seat before, you have been under pressure before, you have been criticized before and you have been called a lot of names before. And you have also turned around a few companies before.

So why, then, as a 58-year-old executive who has been through it all, would you want to do it all over again? Why would you want to give up the comfortable lifestyle in Florida and the occasional consulting projects for the turmoil in Rocky Hill? Is it for the challenge; that one last chance for glory? Sort of like returning to your personal field of dreams?



**TONY LISANTI**
Editor

First of all let me officially welcome you back to the wonderful and turbulent world of discounting. And congratulations on your ability to negotiate such a lucrative deal and become one of the highest paid executives in the industry. I guess most people are either jealous or misinformed because they really don't understand exactly what you are getting into. Actually, with your $2 million-plus annual agreement, you will be receiving almost as much as Ames' entire six executive officers in 1989, whose combined salaries were $2.5 million. And the criticism that because you are working for a discounter (or the fact that Ames has filed Chapter 11 with over $850 million in debt), that your salary should also be discounted is hogwash. You and I know that.

You and I also know that Ames needed a change. And we know that you face a much more serious task at a much more troubled company than you did at Target, Montgomery Ward or McCrory.

Furthermore, you and I know that everything you want to do has already been decided by industry analysts and the media making your job easy. So all you have to do is make a few simple changes and go back to Florida. Right, Steve?

I've heard that you are going to do the following:

- Get merchandise back into the stores;
- Close some or all of the remaining Zayre store locations;
- Cut back on some programs and some people.

Really, Steve, all you need to do is bring Ames back to where it was in 1985 and start over. Just forget Zayre and Murphy Mart as you would forget a bad relationship. It is that simple, isn't it?

I know the vendors are skeptical. I know the customers are confused. I know the buyers are confused. I know the operations people and systems are overloaded. And no one is standing in line to buy the Zayre stores.

You see, Steve, it's not that simple, is it? No one realizes how difficult a task you face. It's not going to be as easy a turnaround for Ames as everyone believes.

But, I know you're not worried. You've been through it all before. In fact, the least of your problems is what anyone else thinks. And I would tell any skeptic that if you get the job done and save Ames, it will be worth every penny, every sleepless night and every possible name you will be called.

And when you're finished, let me know. There are a few other companies around that could use your expertise.

Welcome back and best of luck.

## BUYERS & SELLERS

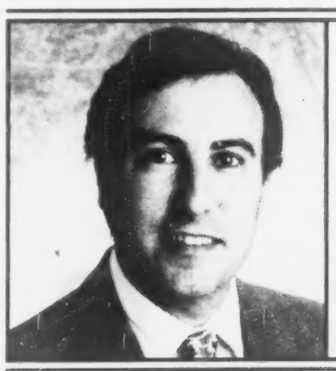
# *Who Will Fill Zayre's Shoes in Inner City?*

Zayre, the nation's preeminent urban/ethnic chain, is disappearing from the retail landscape at a time when ethnic consumers are growing in numbers and importance.

According to demographic projections, ethnic minorities—including blacks, Hispanics and Asians—will represent 26 percent of the U.S. population by the year 2000. This growing group has money to spend. In the Hispanic market alone, the mean household income has increased 89 percent during the past decade, from $16,019 in 1979 to $30,243 in 1989. A recent survey of Asian Americans found that this equally fast growing ethnic group outearns the average total U.S. population at the highest income brackets.

Zayre, at its height, operated some 380 stores and generated nearly $3.3 billion in sales, much of that from urban/ethnic neighborhoods throughout the country. Zayre's demise after its acquisition by Ames, and Ames' subsequent bankruptcy filing last month, leaves a tremendous void that other retailers have yet to fill.

For all the mistakes Ames made in trying to absorb its huge acquisition, the worst was alienating Zayre's core customers by abandoning the highly promotional image the chain's shoppers had come to know and love.



**DON LONGO**
Exec Editor

Instituting an everyday low price policy in place of a promotion-driven pricing format is not as easy as it sounds—just ask Sears! Besides, an everyday low price policy does not work if a company is not operating with everyday low *costs*.

Ames' compounded the problem when it retrofitted the Zayre stores to conform to the Ames' prototype. In the process, the stores lost much of their ethnic appeal. What's fashionable in Rocky Hill, Conn., is not necessarily fashionable in Washington, D.C. Despite all its faults prior to the Ames' acquisition, Zayre had traditionally been credited with carrying one of the strongest ethnic health & beauty aids departments in retailing. Sources have indicated that under Ames even that competitive strength was diminished.

But, that's Monday morning quarterbacking. The question now is: Who can step in and serve the Zayre constituency?

K mart? The nation's largest discount chain does have familiarity with urban customers. However, with all its new stores being designed to conform to a more upscale-looking prototype, it's doubtful K mart is particularly interested in filling that niche.

Sears? The Sears Ltd. test stores seemed like a logical way for the retailer to opportunistically expand in urban areas that normally could not support a full-line Sears department store. However, after just a one-year test, Sears this month decided to close its downsized Sears Ltd. inner city store located in Chicago. While a larger, suburban Chicago Sears Ltd. has been termed a success and is slated for expansion, Sears does not appear to be targeting the inner city with this concept.

Wal-Mart? Get serious. Why would the small-town retail champ want to tackle inner city populations?

Target? The upscale discounter has proven its mettle in major metro markets, yet its fashion goods orientation does not make Target the ideal candidate to replace Zayre in the inner city.

Few other major discounters are in the financial position to undertake a major expansion right now. One possibility is far out, yet intriguing.

At the grand opening of Alexander's newest store located in the ethnic neighborhood of the East Bronx, N.Y., customers practically knocked down barricades to get in and spend their hard-earned money. Customers' comments were effusive in their praise of the former Korvettes and TSS store and lines at the cash registers signaled Alexander's ability to capture the hearts of the heavily Hispanic community.

Real estate developer and casino tycoon Donald Trump is a part-owner of Alexander's. With his financial backing, Alexander's, which until this month hadn't opened a new store in a decade, could expand into other urban, inner city ethnic neighborhoods. Alexander's could take over the former Zayre stores in Chicago and Miami, and could target Los Angeles for future growth.

My only suggestion to The Donald is that he curb his passion for putting his name on everything that he owns. I'd keep the Alexander's nameplate on the store. I don't think "Trump's Discount City" would go over big in the East Bronx.

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**New York** 425 Park Ave., New York, N.Y. 10022
212-371-9400. Fax 212-838-9487.
President **J. ROGER FRIEDMAN**
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213-464-8321
Area Manager **Howard Zabner**
Associate Editor **Pamela Meek**
Office Manager **Maureen Jackson**

**San Francisco** 400 Montgomery St., San Francisco, CA 94104
415-362-2575
Office Manager **Pamela Spevack**

**Washington** 117-35 Striley Drive, Ashton, MD 20861
301-774-3895
Manager, Correspondent **Kenneth Rankin**
Correspondent **Deane Evans**

**Japan** Diamond-Friedman Ltd. Chain Store Age News Japan 1-4-2 Kasumigaseki, Chiyoda-ku Tokyo, Japan 504-6750

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# HARD LINES

Automotives • Health & Beauty Aids • Hardware • Toys • Stationery • Sporting Goods • DIY

# Show Searches for Mass Appeal

## Stationery Expo Expands Home Office, Halloween to Lure Buyers

*Nationwide DSN Report*

Despite efforts by organizers of the National Stationery Show, a large contingent of mass market retailers and manufacturers will not be attending the annual event. Still, the growing importance of home office and Halloween season sales is providing incentive for some retailers to give the show a second look.

Such manufacturers as American Greetings, Ambassador Cards, Gibson, Stuart Hall, Sanford and W.T. Rogers plan to remain strong supporters of such events as the Back-To-School Merchandise Show which is more attuned to the mass market, company reps told *DSN*.

George Little Management, show manager for the 44th annual National Stationery Show being held May 20 to 23 at New York's Jacob Javits Convention Center, has been trying in recent years to appeal to more mass market-oriented attendees.

This year, Marian Burke, show manager, said she produced a special mailing for mass market vendors and retailers to entice greater attendance. She said the mailing highlighted the show's three seminars, the types of products exhibited at the event and a general introduction to the show. The result, so far, is the beginning of more mass market attendees, she said.

For example, Stuarts, with 23 stores, will be attending the show for the first time in many years, said Linda Hamilton, stationery buyer. Hamilton said she is interested in beefing up her party goods section and in bringing in more "new and trendy" items in licensed party goods and giftware.

The annual stationery show is geared mostly to the gift and specialty retail segment. Nevertheless, there is a good deal of product overlap between the specialty retail and mass market groups: social stationery, paper party items, prints and posters, and home office stationery.

In fact, home office stationery is a growing merchandise category at the show. Home office was introduced to the show just two years ago and now over 100 exhibitors are expected, Burke said.

The National Stationery Show expects attendance to hit the 50,000 mark, 25,000 of whom will be buyers. About 1,400 exhibitors are expected to display their wares in 340,000 net square feet. Product categorization, introduced last year, will be dropped for the 1990 event since buyers overwhelmingly "said they prefer to come upon something," said Burke.

Two themes should establish themselves as trends during this year's show: Halloween-related merchandise and licensed products, particularly The Simpsons, said Burke.

Party goods, especially shopping and gift bags, and home-office products also are expected to remain strong during the 1990 event.

Directing attendees' attention to the growing importance of Halloween will be a haunted house display on the exhibition floor. The haunted house will feature products from various manufacturers, a first for the show.

By all accounts, Halloween has become a holiday of growing importance. Many families now prefer their children to celebrate at home with friends rather than going door-to-door trick-or-treating. Parents, too, have joined the Halloween party spirit, increasing the need for party supplies for both groups.

In response, companies such as American Greetings have increased their offerings in Halloween merchandise. New for Halloween 1990, American Greetings is introducing two new lines of Halloween party goods, decorations, candles and cards under the Forget Me Not label.

# U.S. Forecasts More Growth in Video Games

**By Deane Evans**

WASHINGTON — Video game sales, which put $3.5 billion in discount store and other retail tills last year, will continue to grow through 1994, according to a recently released U.S. Department of Commerce study.

"In 1989, electronic video games were the top selling toy, continuing their rebound started in mid-1986," researchers reported. The study showed that about one-fourth of the 90 million U.S. households currently own a video game system.

Domestic toy manufacturers' sales slid $80 million to $3.7 billion last year. Economists said, "the lack of a hit toy" was the major factor in declining U.S. manufacturer sales.

According to the study, the dim picture for the domestic toy industry is not expected to improve much during the next five years. Economists forecast another decline in value of shipments in 1990, about 1.1 percent after adjustment for inflation. Marginal improvement—an annual inflation-adjusted gain of 1 percent—is predicted from 1991 through 1994.

Shipments of sporting goods equipment such as golf, tennis, bowling and fitness increased slightly in 1989. U.S. manufacturers' sales were up an estimated 4.5 percent (1 percent after adjustment for inflation) from $5.3 billion to $5.5 billion. After inflation, last year's increase amounted to 1 percent, about half the inflation-adjusted 2 percent rise in shipment value predicted for 1990.

Sales of exercise equipment was a key factor influencing the 1989 market. Industry sources reported that sales increased an estimated 8 percent last year, reaching $1.1 billion. Moreover, economists predicted that "the future of exercise equipment should remain strong in coming years, as physical fitness is no longer a fad, but a lifestyle."

**Trends and Forecasts: Dolls, Toys and Games**
*(In Millions of Dollars)*

| Item | 1987* | 1988** | 1989** | % Change 88-89 |
|---|---|---|---|---|
| Value of Dolls, Toys & Games Shipments | 3,714 | 3,778 | 3,702 | −2% |
| Dolls & Stuffed Toys | 285 | — | — | — |
| Games & Toys | 3,429 | 3,498 | 3,428 | −2 |

*Preliminary **Estimated

*Source: U.S. Dept. of Commerce: Bureau of the Census; International Trade Administration*

**Trends and Forecasts: Sporting & Athletic Goods**
*(In Millions of Dollars)*

| Item | 1987* | 1988** | 1989** | % Change 88-89 |
|---|---|---|---|---|
| Value of sporting & athletic goods shipments | 5,058 | 5,302 | 5,539 | + 4.5% |

*Preliminary **Estimated

*Source: U.S. Dept. of Commerce: Bureau of the Census; International Trade Administration*

## MARKETWATCH

### Sears' Hardware Nears Reformat

CHICAGO — Sears, Roebuck & Co. appears close to rolling out its latest power format: hardware. Sears has renamed its lawn, garden and hardware department Craftsmen Home & Yard Center, and is operating as a test at least 21 such centers remerchandised with a variety of brand goods, in addition to its traditional Craftsman private label. A spokesman declined to disclose a national rollout date, even though Sears has renamed all departments, whether remerchandised or not, and begun a national TV campaign to promote them.

### Spin-Off Looms For Fisher-Price

EAST AURORA, N.Y. — Quaker Oats will spin off to shareholders its troubled Fisher-Price toy division as a freestanding company. F-P, which accounts for 15 percent of Quaker Oats' $5.7 billion in sales, posted an operating loss of $25 million last year, compared with operating profits of $9.2 million in 1988.

### Canadian Tire Looks Southward

TORONTO — Canadian Tire is set to take another crack at the U.S. automotives aftermarket, starting with four new stores in Indianapolis. The as-yet unnamed chain will feature stores of 10,000 square feet of selling and storage space and at least five auto service bays. No probable opening date is available. Canadian Tire, which operates 400 home and auto stores in Canada, lost $192 million in 1986 when the company sold Texas-based White Stores to Western Auto in 1986. Canadian Tire had bought the auto chain in 1981. Sales in 1989 were $2.5 billion (Canadian).

### Chief Auto Begins Battery Recycling

DALLAS — Chief Auto Parts has rolled out a chain-wide program to recycle lead-acid batteries, in addition to a test program to recycle used motor oil at about 50 of its 500 stores.

Motorists who wish to recycle junk auto and truck batteries may turn them in at any Chief Auto store. Chief accepts any brand of battery, regardless of where purchased.

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# Ames Counts on Pistner Miracle

*(Continued from page 1)*

ventory and systems that don't meet management's needs to lack of quality internal communications."

The causes of the problems he has faced in the past, he said, go back to poor management. "The business has lost its course because management is responding to its troubles, not in any sense managing the business to make a profit."

He noted his accomplishments—turning Target and then Montgomery Ward into highly successful retailers—but acknowledged that Ames was a different challenge in that it was in Chapter 11.

Briefly analyzing the Zayre acquisition—which doubled Ames' size and became the root of the retailer's downfall—he explained, that Ames' management "didn't understand the chain's strengths and weaknesses. They overestimated their capability and skill in managing at a distance. If you can't do this, you can't accomplish an acquisition."

Pistner said his first priority was getting the stores restocked. "Our resources are coming up to speed very fast and I appreciate the backing and support they are giving me and [president George] Granoff. He's a very solid and experienced executive and we can talk in shorthand."

He was now examining Ames' operations, "spending nights," he noted, looking over the chain's numbers and its plans and reviewing its management. "Changes in management should become clear almost immediately," he said, noting other indications would take longer before they become evident.

The next moves on the long road back for Ames, he added, will follow the formation of creditors' committees.

Pistner's confidence in his turnaround abilities seems to be shared by other individuals. The consensus description is that Pistner is a tough, even draconian turnaround artist. "If they want someone to crack the whip, that's what they got," said a former Ames executive. "He'll be very tough, and that's probably what Ames needs right now," an industry observer added.

"Talking with him is like talking to a machine gun," a former associate noted, with more than a hint of admiration.

Pistner's mid-1970s restructuring of Target, insiders said, involved re-establishing its merchandising priorities and cutting a lot of fat. His reward: head of Target's parent Dayton-Hudson, a post he held until becoming chairman of the then-moribund Ward in 1981.

At Ward, the vast merchandising and operating changes that turned it into a success story occurred two years after Pistner left, when Bernard Brennan became chairman.

From Ward, Pistner moved to McCrory, and then began a new career as a consultant.

And now Ames, perhaps Pistner's greatest challenge. His potential reward in cash and generous expense allowances are enormous as would be the payoff for battered stockholders.

Ames, a major Northeast retailer, never developed a real personality. It succeeded mainly because founder Herb Gilman spotted stores in small, isolated markets with little competition. He also followed an ultra-conservative merchandising program that avoided advertising excesses and trendy fashion merchandise which crippled several rivals. But on the other hand Ames was left with a dowdy image.

Ames had one terrific advantage through most of its history. Operating almost solely in New England and upstate New York, the chain had the most compact operating area in discounting.

However, in the mid-1980s, Ames headed into new territory—buying the Pittsburgh-based G.C. Murphy chain of discount and variety stores.

Eighteen months ago, Peter Hollis, then Ames' ceo and president, with the reluctant backing of the now-retired Gilman, acquired Zayre, once the dominant discounter in the Northeast.

At the time, Hollis noted the potential for "synergies" between the two chains, particularly their similar geographic locations, merchandise categories and operations systems. However, in retrospect it seems that those synergies were more in the minds of a "think positive" Ames management than they were based in reality.

Reality won. Ames' April 25th Chapter 11 filing became the largest bankruptcy in the history of discounting.

What will Pistner do to bring this chain back? He has several elements working in his favor. First, the original Ames stores have retained profitability. Not much, evidently, but they're not hemorrhaging money. Many of the Zayre stores also are turning a profit, although Chicago appears to be an unmitigated disaster.

Pistner is expected to shut stores. The threefold plan: cut losses, generate funds and streamline operations to get the chain under control. Most Zayre units are likely to be scrapped, some because they're unsalvageable, some because they have resale value at auction, and some because they're too far away or isolated to be run effectively.

The likelihood is that the Ames that emerges from bankruptcy will have 300 to 400 stores, roughly its size before the Zayre purchase.

# McNulty in Pic 'N' Save Takeover Try

*(Continued from page 3)*

The sole general partner in Girard is David H. Batchelder, formerly vice president of finance, and treasurer of Mesa Petroleum, who served as chief strategist for takeover raider T. Boone Pickens. In March 1988, Batchelder left to form Batchelder & Partners.

McNulty's office declined to comment on his involvement in the Pic 'N' Save takeover attempt.

Pic 'N' Save also declined to comment beyond releasing a vague statement expressing doubt that a takeover could succeed given the chaotic state of today's junk bond market.

In that statement, chairman, president and chief executive officer Lewis B. Merrifield III said, "our board of directors and management have been and remain committed to maximizing shareholder value both now and in the future.

"We have developed an operating plan which we believe will achieve this end. However, given the potential we see in Pic 'N' Save and what we believe to be the current disarray of the financial markets, we have serious reservations about whether now is the appropriate time to seek either a leveraged buyout or sale of the company. Moreover, we have serious doubt as to whether any LBO proposal at a price that would be attractive to our shareholders could be financed."

A spokesman emphasized that as of presstime, Girard had made no specific offer to buy Pic 'N' Save.

Pic 'N' Save operates 190 stores in the West and Southwest, as well as Metro New York. Its 1989 sales came to about $400 million.

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